

# WAKING FROM THE AMERICAN DREAM



## 7 TIPS TO AVOID FORECLOSURE

A bankruptcy supervisor at a home equity company still remembers a call she received from a distraught woman in her eighties.

The customer was barely making ends meet on her social security income when unforeseen medical expenses hit. She simply couldn't afford her mortgage anymore. So, she worked out an agreement with the bank to send in reduced payments every month and extended the term of her loan. "She cried, blessed us and thanked us repeatedly for helping her keep one of the few things she had left," the supervisor says.

Many homeowners aren't as fortunate: there were more than 2.2 million foreclosure filings in 2007.

Most of these homeowners found themselves saddled with hundreds of dollars in additional payments when the adjustable rate on their loan increased. To complicate matters, stricter lending requirements and pre-payment penalties made it harder for them to refinance with cheaper fixed-rate loans. Many borrowers also found their homes decreased in value and couldn't be sold for enough to pay off their mortgage.

### Foreclosure: A Smart Way Out?

When you're behind in your mortgage payments, it may be tempting to just stop paying altogether. But allowing a foreclosure to proceed can hurt your chances of securing a loan in the future (for another house purchase or college education, for example). And spotty credit can jeopardize your shot at landing a job, renting an apartment and more. In some states and situations, a lender can even pursue you in court for paying the deficit between what your home would eventually sell for and what you owe.

### Averting Foreclosure

Not sure you can make your next mortgage payment? These tips can help you avoid foreclosure:

**Contact your lender.** Foreclosing on a home is expensive for lenders, costing them an average of \$50,000; they would prefer to see you keep your home. Your lender can suggest options to help you do so, such as forbearance (when the bank agrees not to pursue foreclosure if you pay an agreed amount monthly) or reinstatement (paying the total amount you are behind by a specific date).

**Create (and stick to) a budget.** Track your monthly income and expenses. Then see where you can save (or generate more income) for house payments. For example, you may want to discontinue cable or your gym membership temporarily,

cut back on dining out or sell some of your possession.

**Explore refinancing.** If your lender hasn't already filed a default notice, and you have equity in your home and solid credit, you may be able to find a more affordable loan. If you prefer not to work with your lender to refinance your loan, you can find an experienced broker on the National Association of Mortgage Broker's website ([www.namb.org](http://www.namb.org)).

If it's not possible to modify your loan or refinance, consider these other options before foreclosure becomes a reality:

- » **Sell the house.** A quick sale may be your best bet if you have enough equity in your home to allow you to pay off your mortgage in full (after deducting any real estate commissions). Taking this route helps you salvage what's left of your credit score and equity.
- » **Offer a deed-in-lieu of foreclosure.** With this option, you voluntarily give the deed to your home to the lender, rather than forcing the lender to engage in a lengthy, costly foreclosure process. If the lender agrees to accept the deed, you aren't liable for any deficiency that may result, i.e. the difference between the amount owed on the mortgage and the fair market value or foreclosure sale price – whichever is greater.
- » **Negotiate a short sale.** Let's say you owe much more on your home than it's worth. You may be able to sell the house and give the proceeds to the lender – providing the lender agrees not to go after you for the deficit.

Allowing a foreclosure to proceed is considered to be the least desirable choice, but it doesn't have to ruin your financial life beyond repair. You may be able to rebuild your credit in a few years and secure another mortgage with a reasonable interest rate.

*This article is for informational and self-help purposes only. It should not be treated as a substitute for financial, medical, psychiatric, psychological or behavioral healthcare advice, or as a substitute for consultation with a qualified professional.*

*(continued)*

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### Need help?

Call toll-free, 24 hours a day, seven days a week:  
TDD: (800) 327-0801  
or visit us at: access code:

**(866) EAP4SOC (327-4762)**

or visit us at: **eap4soc.mhn.com**  
access code; **soc**

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## Another Option: Use Your EAP

Did you know your Employee Assistance Program can help you with legal and financial issues related to real estate, credit counseling, budgeting and more? Your benefits include:

- » One initial, 30 minute office or telephonic consultation on an unlimited number of legal and financial matters at no cost (if you retain the attorney or financial consultant, you receive a 25 percent discount on their fees)
- » Access to MHN's Online Member Services website ([www.members.mhn.com](http://www.members.mhn.com)), which houses a legal and financial library, helpful forms, and financial calculators.

Feeling stressed, anxious or depressed over your legal and financial issues? Can't sleep? If you're feeling overwhelmed emotionally, your EAP can help, as well.

Call toll-free, 24 hours a day, seven days a week.